



“Natco Pharma Limited  
Q1 FY2021 Earnings Conference Call”

August 13, 2020



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**Moderator:** Ladies and gentlemen, good day, and welcome to the NATCO Pharma Q1 FY2021 Results Conference Call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prakash Agarwal of Axis Capital. Thank you, and over to you, Sir!

**Prakash Agarwal:** Yes, thank you, moderator, and good morning, everyone. On behalf of Axis Capital, I welcome you all for NATCO Pharma Q1 Fiscal 2021 Earnings Call.

Today, we have senior management represented by Mr. Rajeev Nannapaneni, Vice Chairman and CEO; and Mr. Rajesh Chebiam, Vice President, Investor Relations and Corporate Communications.

Over to you, Rajesh. Thank you.

**Rajesh Chebiam:** Thank you, Prakash. Again, good morning, and welcome, everyone, to NATCO’s conference call discussing our earnings results for the first quarter of FY2021.

I assume all of you are continuing to stay healthy and safe during these difficult times.

During this call, we will be making certain forward-looking statements, which are predictions, projections or statements about our future events, and anything said on this call, which reflects our outlook for the future, or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. I would like to state the material of the call, except the participant questions, is the property of NATCO and cannot be recorded or rebroadcast without NATCO’s expressed written permission.

We will begin the call with results highlights, and then we will follow up with an interactive Q&A session. On the earning details, I hope you have received the financials and the press release, which were sent out yesterday. They are also available on our website.

For the first quarter FY2021 ending June 30, 2020, the company recorded consolidated total revenue of 582 Crores for the first quarter, as against 513 Crores for the same period last year, reflecting an increase of about 13.4%. The net profit for the period on a consolidated basis was 122 Crores, as against approximately 143 Crores same period last year, showing a decline of about 14.5%. The increase in revenue was driven primarily by export formulation



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business. Supplies were driven by pandemic-related requirements, which were lower in margins. We also had challenges in the domestic oncology business primarily due to lower hospitalization due to COVID situation.

In spite of the lower margins during the first quarter, the company is confident of its business for the remaining part of the financial year based on the order books and the earnings outlook. The company's guidance is a growth of over 25% in its earnings for FY2021 compared to the prior year.

We have also given the segmental revenue split in the press release.

At this point, we will pause, and we will take your questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Ravi Dharamshi from Valuequest. Please go ahead.

**Ravi Dharamshi:** You have guided for 20% to 25% growth. I just wanted to know, if this includes the Canada Revlimid settlement, and if that is the case, then removing that, what would be the guidance, if you threw some number on that?

**Rajeev Nannapaneni:** Ravi, the settlement terms of the Canada are confidential, okay? So I cannot get into the details of that. I think we already publicly stated we assume that, all the outlooks and our growth is 25%.

**Ravi Dharamshi:** But the settlement is part of that growth.

**Rajeev Nannapaneni:** I cannot get into the details of the settlement. I think I have said 2 statements. We settled our litigation with Canada and our earnings guidance is above 25%. I think I can, that is all I will say.

**Ravi Dharamshi:** Okay, okay. So if you can just throw some light on how is the domestic hospital sector reviving, and has the growth started picking for it?

**Rajeev Nannapaneni:** It has been a very challenging last 3 months, Ravi. I think April was really bad. I think, May, things got better. June was very good, and July, I think, it was not as strong as June because, I think, June was a lot of pent-up demand was there. So I think that is how we got very good June, and then things just settled down and dropped a bit in July. I think, as I said in my last call, I think, every month is a learning, and it is very difficult to predict how things are happening in domestic, because our portfolio is mostly onco-driven, and onco is the most profitable segment that we have in domestic, and we have been hurt hard by lower

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hospitalization, and I am hoping things will get better. I think our scale is driven by the big metros, Mumbai, Delhi, Hyderabad, Bangalore, Chennai and Chandigarh and Kolkata. They probably make up most of your sales, and I think these cities have been the hardest hit. Most of these cities have been the hardest hit and that has really impacted our sales, but I am hoping things will ease up in the next 2-3 months and that people will come back, and I think we should see a rebound in the domestic sales, but it has been hard. I think there is no other way of putting it, yes.

**Ravi Dharamshi:** All right, just last question from my end. What is the status on communications with FDA on Revlimid?

**Rajeev Nannapaneni:** Revlimid looks good. I think we have answered all the questions, and we believe that we should get an approval, and we have a target action date now in December, okay? So if all goes well, I think hopefully, we will get the approval in December, I think, but I can confirm that we have a target action date in December.

**Ravi Dharamshi:** Thank you, all the best.

**Moderator:** Thank you. The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

**Amar Maurya:** Sir, you have seen a phenomenal growth in U.S. geography. I mean, what are the drivers for that, in that? Like what have done well for you, Copaxone, Tamiflu, and Doxil? What has basically driven the growth for you in the U.S. formulation business, if you can just highlight?

**Rajeev Nannapaneni:** I think Tamiflu did well in the past, but Tamiflu is not contributing that much to the margin now because there has been a drop in the realization that we had in the past. So I think that is on Tamiflu. I mean, I do not want to get into profitability of each product, but broadly I think our earnings are driven by 3 or 4 products where we are very strong. I think I have said this in the past. I think Copaxone is very important to us. Doxil is very important, lanthanum carbonate. So lanthanum carbonate, we have only one, we are the only generic in the market. Doxil, we and Sun are the major competitors on that, apart from our partnership with Reddy's. Copaxone, it is us and Sandoz. So I think obviously they are the key products in the United States.

**Amar Maurya:** And sir, in the export formulation, if you can share, what will be the contribution from U.S., LATAM and Canada?

**Rajeev Nannapaneni:** We are not doing a split. We are just doing a general what we call, we are calling export, top of, like right now I do not have the numbers, my friend. I think I will just come back to you, whether we want to do a split, but as of now, if you put me on the spot and ask me, I do not have the split, but I will just come back to you on that.

**Amar Maurya:** Sure.

**Moderator:** Thank you. The next question is from the line of Anuj Momaya from Valuequest. Please go ahead.

**Anuj Momaya:** Sir, you are, in your press release mentioned that your margins are impacted both in your domestic and the international formulation business, so can you share what has impacted the margins in the international formulation business as well? Because domestic, you said it is basically driven by lower oncology sales, but what has led to the international margins?

**Rajeev Nannapaneni:** Well, I think I kind of covered it, but I will sort of reiterate it again. I think a good amount of the sale has come from pandemic supply, and I think, as you guys are aware, we have 2 pandemic products. So, in certain countries and certain markets and certain customers, there has been some stocking. We have Oseltamivir and Chloroquine. So I think these are the 2 major ones. So these are relatively high revenue but relatively lower margin, so compared to our traditional business. That is why you have seen an increase in the top line, but the commensurate increase in the margins was not there because relatively it is more competitive. So I think that is what I was trying to convey.

**Anuj Momaya:** Sir, the API sales boost that has happened is also due to the supplies of Chloroquine API. Or there are some other things, which have led to...

**Rajeev Nannapaneni:** That is a mix of both. I am not getting to product split, but I think the buoyancy that, you have seen the export formulation and API sales have increased dramatically from our base levels compared to previous quarters, and they are primarily driven by both of these products.

**Anuj Momaya:** So going forward, do you believe the margins should come back to these previous levels? Or how do we look at the margins?

**Rajeev Nannapaneni:** It is the sales mix that drives it. I think, if you have more orders of these, then obviously the margins will look low. If you do not have these orders, then obviously the margins will look high. So it is the mix of the sales mix. If you have more of these, then obviously the margins will be lower. If you have less of these, then the margins would be higher. It is only



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whether you are having an order for this or not that will determine how the margin mix is going to be.

**Anuj Momaya:** Secondly, on agro chemicals, what is the update on the Coragen filings that we have on the court case and the approval from the insecticide board? Any updates over there?

**Rajeev Nannapaneni:** I am hoping for some good news on both counts. I think, on the court case, it is being litigated as we speak, so we are waiting for an outcome on that, and on the regulatory approval, I think we have answered all the queries. We got one set of queries recently and we have answered that also. We are hoping, I think, again, these things are very, it is very difficult to come up with a time line during COVID because even in government all the things are a bit slow, but I am hopeful. I think, I am hoping in near term we will get the approval on the product, and also we are also hoping for a positive outcome in our court case. So I think these 2 will drive some clarity on that product.

**Anuj Momaya:** So what is the date of the court case last that is updated to you?

**Rajeev Nannapaneni:** I think, do not remember the next date of hearing, but it is ongoing. I think it is scheduled, I think, if you ask me on the spot and say, "Which date?" I do not recollect, but I think it is going on. I do not recollect the date, my friend, but I think it is shortly. That is all I can say, yes. It is an ongoing process also. You get a hearing and then they post it after a week or 10 days...

**Anuj Momaya:** So any more filings you have done in agro chemical? I think you have indicated 2 filings. So after that, any further filings you have done on this time?

**Rajeev Nannapaneni:** No, no, nothing to update at this time.

**Anuj Momaya:** Okay, and lastly, Sir, my last question is on just U.S. I mean, what are the filings that we are looking for because we have always indicated 4 or 5 filings only. So any filings that you have done in the last 6 months that you want to tell investors?

**Rajeev Nannapaneni:** I think we have done those filings. We have one product. It is called trabectedin that we filed. That is a nice, interesting product to do. The sales are like about, I do not remember the sales. I think it is like below 100 million, if I think correct, and we are one of the first to file. There were 2 first-to-filers. We have a partnership with Sun on this product, and so that is a very good filing that we have, and let me see how that goes. There is us and there is another Chinese company that filed. So I think that is probably the most interesting filing that we did in the last 2, 3 months. So I think that is probably an update that I can give at this time. In terms of new filings and all, we are working on more interesting things, but I

think, because of COVID, our R&D efficiency has also dropped a bit. So we have to see how that plays out, but we have a good, healthy pipeline, but I would also like to caution that things are not as easy as what they were pre COVID in terms of our productivity that we used to enjoy before COVID, okay?

**Anuj Momaya:**

Okay. Thank you sir.

**Moderator:**

Thank you. The next question is from the line of Kashyap Karthik from KBG Capital. Please go ahead.

**Kashyap Karthik:**

This is Kashyap. So, couple of questions. One, the first question is the 20%, 25% growth in earnings that you have talked about. Does this include, I mean, again, does it include sorafenib or Everolimus or lapatinib earnings? Because again that was confidential, so we do not know what to include in this or not, to exclude in this. Not any particular molecule, but any of these 3 molecules, are they included in the earnings or not really?

**Rajeev Nannapaneni:**

Sorafenib is not included. Everolimus is not included. Lapatinib, also we have not included in the guidance. We have not included any of the 3 in the guidance. We are assuming based on the order book that we have.

**Kashyap Karthik:**

Okay, okay, cool. Sir, the second question that I had was, sir, 1 year back, we kind of said, I am sure it is as frustrating to you as it is to us. You said we have a goal date from FDA, same target action date. Or maybe there is another term called goal date, right? Exactly 1 year back that we said it, and then we got more questions to answer. I mean, if you can just throw some light on what kind of questions, sir. I mean maybe we will not understand it, but we are just going against a moving targetting, saying this is a goal date. "No. Right now, it is December." Again it is June. I mean, thank god, it is March 2022, so we have some runway, but still target action date, after giving the goal date, again question. So how does this process work, sir, actually? What if December pushes to May again, right? So that is the question that I have in my mind.

**Rajeev Nannapaneni:**

Yes. See, my friend, see, we answer the question best to our ability based on the information that you give. If they have further questions, it is their prerogative to ask. I mean that is the nature of the business, my friend. I do not have an answer to your question, honestly. I think you answer the best way that you know and you satisfy the regulator. If they are not satisfied, then they come back with more questions and you go back and you answer again, and that is the nature of the business. I think that is the best way I can answer that question, yes.

**Kashyap Karthik:**

Sure sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Nikhil Mathur from AMBIT Capital. Please go ahead.

**Nikhil Mathur:** I just have one question on the domestic business. Now you have mentioned in your comments that the oncology business was under some sort of pressure, especially in April. Sir, 2 questions here. Have June and July exit run rate been substantially higher? And can you compare it with pre-COVID levels, where we are now? And secondly, if not onco, then what has really driven this quarter-on-quarter growth that the domestic business has witnessed in this particular quarter?

**Rajeev Nannapaneni:** We have some good couple of new launches. I think that has helped and, but having said that, to be honest with you, I am not happy with the way it is taken off because we are very disappointed with the amount of hospitalization that has happened. I mean in terms of our products only work if you go to the hospital, is not it? And because of fear of COVID, a lot of people are not coming to the hospital. Are we running at pre-COVID levels? No, we clearly are not. I think, see again, see, every month has been learning, my friend. So I have been fairly candid about it. I think, every month, you are just learning something new, and are we at 100% of pre-COVID levels? No, we are not. Are we at, let us say, 75% or 80% of pre COVID? I think, yes. I think the experience of the last 4 months shows me that that is where we are at this time. That is, and again, guys, I can only tell you what is going on. Again, I do not have a crystal ball to tell you how the next few months will plan out or how does pandemic pans out, but this has been my experience in the last 4 months. I think that is the best way to answer that question.

**Nikhil Mathur:** Okay, and just to follow up on the domestic business. So as far as the total number of launches are concerned. So there has been some bit of guidance, right? On an annual basis, there will be 6 to 8 launches. That will keep happening over next 2 to 3 years. So is that plan on track?

**Rajeev Nannapaneni:** It has gone on track. I think, in terms of launches, I think, we are looking positive. I think, I believe we can launch about 10 to 12 products a year, and I think that is on track, and this year has started off reasonably well. We had a total about 5 launches in the past few months, so I think we are on track. I think we are in very good shape on that, yes.

**Nikhil Mathur:** Sure, thanks a lot.

**Moderator:** Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.



**Anand Bhavnani:** I have 1 clarification and then 3 questions. The first clarification is the guidance of 25% is on revenue, or profit?

**Rajeev Nannapaneni:** It is that on the press release says it is profit.

**Anand Bhavnani:** PAT.

**Rajesh Chebiyam:** Yes.

**Anand Bhavnani:** Okay. Now coming to the questions. So 3 questions. One is there has been a recent spate of executive orders signed in U.S. which allow people to import drugs from other countries that are of similar quality. So does this in any way affect prospects of Revlimid for us? Is the Revlimid price in Europe or elsewhere in the world cheaper, and can people import it? If you can comment a bit on that.

**Rajeev Nannapaneni:** Okay, let me answer that question. Again, I do not have clarity on how it actually plays out. So it will be very premature to comment on it, but I think my answer to that question, instinctive answer, would be that it is not a straightforward process you can import and start substituting because there is a REMS program that you need to have. The way the products are dispensed, you need to have, what you call, a process-based dispense, you need to go through a counseling session before it dispensed. So it is not so easily substitutable as like another product. I think that is probably my instinctive answer, but again, wait for it to play out, and there are a lot of other factors. At this time, it is really premature to comment about it, yes.

**Anand Bhavnani:** Okay. Secondly, in terms of our market size in U.S. So the 7 billion market, can you give a sense how much of it comes from a state like California?

**Rajeev Nannapaneni:** I do not have an answer to that question. I am sorry.

**Anand Bhavnani:** Okay. Thirdly, with COVID, we have seen a lot of comorbidity now. I guess about 1.5 lakh to 2 lakh patients from the overall market of Revlimid in the U.S. So in your assessment, do you see over next 2 years a lot of comorbidity among potential users of Revlimid, current users; and the market might not be as big as 7 billion. It might collapse by 1 billion or 2 billion if COVID relatively stay here for a while. Is that a realistic threat? Or what is your assessment of the situation?

**Rajeev Nannapaneni:** My friend, I cannot answer that question either. I am sorry. I just simply cannot answer that question. I do not think I am even, what do you call, I am not an expert on this, so I cannot answer that question.

**Anand Bhavnani:** Sure, sir. I appreciate it, and lastly, in case of U.S., the State of California has deemed all the settlement anticompetitive, and they are presumed to be anticompetitive. So any sense on if our settlement with Celgene is being considered that way? And if, does it apply to us because our settlement is already done. So is it prospective in nature, if you can comment a bit on that.

**Rajeev Nannapaneni:** I think my understanding is that the deal that the settlement that we had was done in the past. So it cannot be retrospective in nature. I think that is what I was told.

**Moderator:** Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

**Kunal Randeria:** Rajeev, a few quarters back, you had given a guidance of around 1400 Crores of PAT for FY2022. So does that still hold, or has the situation changed on the ground?

**Rajeev Nannapaneni:** It is linked to Revlimid, my friend. It is only, I think the guidance will only, I think I will be closer to the guide that we have. See, our expectation is that we will make that much money, but I think a lot of it is, hinges on Revlimid.

**Kunal Randeria:** Right, but then let us say you do maintain the Revlimid time lines and even your expectations play out. Would you be recognizing the entire profit of Revlimid in that fourth quarter of 2022? And some of it will then have to flow to 2023.

**Rajeev Nannapaneni:** I will make that call at that time, my friend. I will tell you. I cannot, what do you call; predict what I will do in about 1.5 years. I think, when we are closer to the launch, I think we can have a discussion about this. I think it is too, let this market formation happen, I think. Then we can discuss about this.

**Kunal Randeria:** Sure, sir, and my second question is on your other markets where you are trying to expand, markets like Brazil, Canada. So if you can just share how these markets are performing, how the profitability has moved and how much it can impact the consolidated margin going forward.

**Rajeev Nannapaneni:** I think these markets are doing reasonably well, and I think these subs are contributing strongly to our earnings, and I think I am happy where we are going, and I think we have also given a guidance that we want to broad base our earnings as much as possible. Now non-US is bringing in about 10% to 15%. It depends on the quarter, of course, but nearly 12% to 15% of our earnings. So I think our idea here is we are trying to do 2 things: diversify our non-US. business to almost 15% to 20%; and also try to bring up domestic sales, which is around 20%, 22% to almost 30%, 35%. I think we were able to achieve both

these outcomes, and I think we should have a more diversified stream of revenue and bring down the volatility in our earnings, okay?

**Kunal Randeria:** But can you share some numbers? I mean revenue numbers; some whether they are profitable, these markets; anything?

**Rajeev Nannapaneni:** Profitability by market, you are asking me. Is that what you are saying?

**Kunal Randeria:** Yes. I mean at least some picture.

**Rajeev Nannapaneni:** That is unusual, data we are not doing, my friend. Let me just, I will come back to on that because, let me assess and I will come back to you on that. As of this time, I do not have those numbers, but let me assess and I will come back to you, okay?

**Rajesh Chebiyam:** But the question is also surrounding more of the subsidiary numbers and non-U.S., Kunal.

**Kunal Randeria:** In the bigger markets, say, like a Brazil or Canada.

**Rajeev Nannapaneni:** I think we will come back on that. I think we have combined all the numbers. I will come back to you on that, okay. Let me come back to you on that, okay?

**Moderator:** Thank you. The next question is from the line of Mayank from Axis Mutual Funds. Please go ahead.

**Mayank:** I just have one question. I wanted to know if you feel there is any structural change happening in the U.S. market either on price side or product opportunity side because of which, and any implication of it on your overall research programs, R&D allocations or having more or less filing towards U.S.? In the past, you have been pretty vocal about how you think about this market, so given what has happened in last 3 to 6 months time frame, I would like to hear your thoughts on the U.S. market, if there is any change, and with regards to that, is there any change in your own strategy or expenditure budgets?

**Rajeev Nannapaneni:** Okay. In terms of the U.S. market, I think things have been fairly stable now because there have been a lot of supply chain disruptions, and I think, products where you have very good market share, I think you have seen a lot more strengthening of the market share because a lot of people are prioritizing their production priorities. There are a lot of people who are dropping out of their tail brands. So where you are very strong on one particular product, you have seen an improvement in the volume, okay? And the pricing has been fairly stable, okay? That is in the U.S. market. The second question you had was what has COVID done in terms of your R&D pipeline...

- Mayank:** No, not COVID. Not COVID, sir. With the U.S. market being what it is pandemically, what is there any change in your thinking towards U.S. markets or any change in your R&D budgets towards U.S. market? Not COVID specific.
- Rajeev Nannapaneni:** Okay. I think, in terms of strategy and all, nothing much has changed. I think we are fairly sticking to what we always do, which is focus on the niche products and try to do a multi-market approach so that we can get better bang for our R&D. That strategy still has not changed, but I think a few minutes ago I commented that the R&D, productivity has dropped compared to pre-COVID time. So that has become a bit of challenging, but hopefully, I think, once things settle down, things will get better, but in the near term, I think we are all, my sense is that the R&D turnaround is not as efficient as what it was in the past. Because even to get a slot in a CRO to do a trial has become difficult because of COVID situation. So it is not as, things are not as simple as they were in the past.
- Mayank:** And sir, anything on the manufacturing strategy in terms of API, more APIs or less APIs, going forward? Or that is unaffected. That is unchanged.
- Rajeev Nannapaneni:** I think we are able to run reasonably well. I think we are able to do more revenue than we did earlier, I think, but we just prioritize a lot of things. I think we are focusing on the products where we are doing well. I think that is, and I think that is there is a lot of efficiency that we have brought about, but it is challenging. I mean, are we working at the same level of productivity that we worked in pre COVID? No, possibly. I think we are able to maximize revenue because of the product mix and all, but I think there are a lot of challenges, people getting sick, and we are doing rotations and alternate days and a lot of other logistical challenges, but we are able to deal with it. I think we are able to come out and work, but it is not as smooth as it was in the past.
- Mayank:** Well, thank you sir. Stay safe, all the best. Thank you.
- Moderator:** Thank you. The next question is from the line of Kartik Mehta from Klay Capital. Please go ahead.
- Kartik Mehta:** First is on Oseltamivir. While the realizations there on account of competition can be under pressure, is it fair to assume that, given the pandemic, the volumes, maybe not just for you but everybody, in this flu season can be at least 10%, 25% higher than previous years? I am just talking about the volumes, Rajeev.
- Rajeev Nannapaneni:** I have no idea, Kartik. I have no idea because how a flu season plays out in a year is very difficult to predict.

- Kartik Mehta:** The commentary which we hear from people concerned in the U.S. if more people have to take the shot. Would you assume that the nature of the business is such that, people who have volumes, are ready, inventory ready, they can take perhaps more advantage over here?
- Rajeev Nannapaneni:** Kartik, what I can tell you is that we are prepared. If there is a big order, if there is a big supply need, we are ready. I think, that way, we have built up. I think we have 2 production sites. We have 1 production site in India and we have 1 production site in the U.S. for Oseltamivir, so, and even if the Buy America kind of rule kicks in, I think we are in good shape.
- Kartik Mehta:** Yes, yes. I was just actually referring to that, yes.
- Rajeev Nannapaneni:** Yes. Just let me answer your question. So that is, in terms of this preparation, I think we are ready to ship. Regarding demand and all, Kartik, I do not want to speculate because how every year works it is all nature, Kartik. So flu, prediction of flu season, the strength of a flu season is your guess is as good as mine, yes, okay? But all you can do, what you can control is only the fact that you are prepared. I think, beyond that, you cannot control anything else, okay?
- Moderator:** Thank you. The next question is from the line of Mitul Mehta from Lucky Investments. Please go ahead.
- Mitul Mehta:** Rajeev, congratulations on a good set of numbers, yes. Yes, Rajeev, my question is on the agri business. Can you just elaborate on how many registrations we have done so far? And as far as the current litigation on the, as far as the current status of the current molecule, if you can give us some idea on the addressable market opportunity in the domestic market, if you can just throw some light on that.
- Rajeev Nannapaneni:** In terms of the products that we have filed. We did a lot of, I think Rajesh will answer on the, see, we have 2 types of products. We have the commodity products and then we have the niche products. Niche products we filed, so far, 3 products we have filed, and the market size of these 3 products is, I think, around 2000 Crores, I think, where we are tending to be the first generic, and regarding other filings, we have a lot of other commodity filings, I think. How many we have, Rajesh, I think...
- Rajesh Chebiam:** Yes. So I think, Mitul, so the, as Rajeev was saying, there are 2 aspects to the registrations for agri. One is you take these very niche and high-value products, like the, what we call it as the 9(3) registrations, okay? These take time, but they have a high value. The one that we already said in the public domain is a product called CTPR. Then you have the second set of products, which will come under 9(4) registrations, which we have done more than half a

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dozen already. We have received the registrations. We do not highlight that because these are more like me-too products because, when you are going out in the field, you need a basket of products, so the combination of the high-niche products as well as the me-too products, okay? So that is broadly our strategy, and so this is where we are. So we have a few in the pipeline, which are also high niche.

**Mitul Mehta:** Last question.

**Rajeev Nannapaneni:** Yes.

**Mitul Mehta:** Yes. Are we confident of launching the products in this season, in this Rabi season?

**Rajeev Nannapaneni:** Subject to getting the market approval and subject to the court case, yes.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** Rajeev, on the API business, I am sure I probably missed the comment. The supply spike in the quarter, was it more COVID related? Or it is just general stocking up on our regular molecules, and what we have seen in the APIs business in general across industry, does it, or I mean, how does the API business look for us now going forward?

**Rajeev Nannapaneni:** It looks good, Nitin. There is a lot of stocking quantity that is happening among, for our regular products, some of are related with pandemic and some just increase in market share on certain products. I think those are driving the earnings of the API business.

**Nitin Agarwal:** But this is more like FY2021 story for you. Or you see this is a story which, given the way the market dynamics are, could have legs for you, as far as the pure APIs business is concerned for you?

**Rajeev Nannapaneni:** I believe some of them are onetime because pandemic supplies tend to be very large orders, which are onetime, but the base business also has improved dramatically, Nitin. There are 2 aspects to the growth. There is the pandemic order portion of the book and there is the base business. I think the base business increase looks like it is going to sustain for a little bit, and the pandemic supplies are all onetime in nature, so I think, once you do it, then you are done. Unless there is a repeat order, then you get into a stage where you can run through a few quarters where you do not have orders, but so I think that is a mix that we have.

**Nitin Agarwal:** Okay, and secondly, on the agrochem business. In I will say a 2-year or 3-year view of, what is the broad; do you have any numbers in mind that you are running with as a goal for

this business? Or in terms of filings, if there is a broader strategy India domestic. Any more color on that with a 2- or 3-year view on this agrochem business in terms of how you see this scaling up?

**Rajeev Nannapaneni:** Yes. In, if you take a 3-year view, I think we are hoping that India domestic should come to a decent stage, and we also should commence our exports. So I think my idea here is that this business should contribute about 15% of our India, or I suppose, consolidated balance sheet. 10% to 15% is the expectation.

**Moderator:** Thank you. The next question is from the line of Shashank Krishnakumar from JM Financial Institutional Services. Please go ahead.

**Shashank Krishnakumar:** So can you just provide the split between the domestic and the third-party sales?

**Rajesh Chebiam:** Okay, you are breaking up, but I think what I hear is you are looking for the split in the domestic business, right?

**Shashank Krishnakumar:** Correct.

**Rajesh Chebiam:** Okay. So the way we are categorizing. Let me give you broader numbers. For the onco business, we have about 78 Crores for the quarter, okay? And we are pooling the next category as the non-onco, which includes the CnD and also the pharma specialities. Both of them together, around 25 Crores, and then the third-party formulation is the balance, so that is also roughly around 22 Crores.

**Shashank Krishnakumar:** Thanks.

**Moderator:** Thank you. The next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

**Yogansh Jeswani:** Sir, one quick question on the oncology side of the business. Of late, we are seeing several of our domestic peer companies also being very bullish on the oncology product basket, and a lot of them are putting substantial investments into this. So any thoughts from NATCO as to how do we see this impact the overall market going forward? Or what thoughts do you have since we are already an established player in oncology?

**Rajeev Nannapaneni:** Is your question that there is a lot of focus on oncology and there is a lot more competition in oncology? Is that the question, yes?

**Yogansh Jeswani:** Yes.

**Rajeev Nannapaneni:** And how do I feel about it? I think, see, we are one of the strongest players in oncology, and I think we have done well in that business, and in terms of competition, I mean, we are in generics, so obviously we are going to see competitions out of the portfolio, but I am happy with how things are, and I think things are stable. I think we are doing reasonably well. I think the only challenge in onco that we have seen are, more than the competition, there are more extraneous issues that we have had. One was DPCO last year, and this year is COVID. I think, once if you sort of go past these 2 issues, I think it is still a good, solid business for us. I am not overly concerned about competition because you have a good name and you have a good portfolio and you have good launches. I think you can do well in this business.

**Yogansh Jeswani:** Okay. So just to getting more details on oncology side of our business. So as NATCO, what is our strategy going forward for oncology? Are we trying to add in more product baskets, like add more onco products? Or there is some other strategy that we have for onco. How do we plan on meeting this competition going forward?

**Rajeev Nannapaneni:** We have a good pipeline, my friend. I think we have a good pipeline of products, and I think we are having good R&D, and I think we are coming up with new ideas and new therapies. I think that is how we are going to grow, and I think our specific focus is on only doing chemistry products. I think as a strategy, we have decided not to do monoclonals. So I think, so our growth is driven primarily by chemistry products.

**Yogansh Jeswani:** Right, and lastly, are we seeing any significant price erosions in oncology?

**Rajeev Nannapaneni:** Have we seen more price erosion than what has already been seen in the past? No. I think things are fairly stable now.

**Yogansh Jeswani:** Understood, that is it from my side. Thank you, and all the best Sir.

**Moderator:** Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.

**Susmit Patodia:** 2 questions. One, why did you, I mean, why would you want to give out 25% EPS growth guidance in times like these, especially in a business that NATCO runs where there is a lot of ifs and buts with regards to court rulings? What are the intents beyond this?

**Rajeev Nannapaneni:** That we will not share my friend. I usually give our guidance based on; I refuse to give guidance in Q1. Typically we give guidance. We always say that, based on certain assumptions, this is what we believe will happen. I think the reason I gave a guidance now



is I am more confident about the guidance. That is why I gave a guidance. That is all, I think.

**Susmit Patodia:** And my second question is so you said agrochem should reach 10% to 15% of revenues in 3 years. So would it be fair to say that your asset base, which is currently at 160 Crores, will also tend towards that? Or will this be a higher-ROCE business.

**Rajeev Nannapaneni:** See, how it will actually play out is something that I do not know. It comes back to your original question because they are all linked with court cases and all. So see, the gentleman asked me, in 3 years, where we see the, sorry. Say that again?

**Susmit Patodia:** In terms of an asset base. So currently it is about 160 Crores in the segment...

**Rajeev Nannapaneni:** Do you see an increase in asset base, you are saying? For now, no, because we are just completing whatever Capex that is there. I think, what we will do in future, I do not want to make a judgment at this time, but I think, with the present asset base, with a small increase, I think we will be able to get that outcome, but, let us see. I mean I am driven by opportunity. If there is something and another opportunity, we will probably invest more.

**Susmit Patodia:** Thank you, best of luck.

**Moderator:** Thank you. The next question is from the line of Srihari from PCS Securities. Please go ahead.

**Srihari C:** My first question is on the other expenditure. I mean we have seen most of the peers that, being able to rein in their other expenditures significantly. So has it played out accordingly for you? Or do you see more of it is coming in the following quarters? And secondly, on the profit share, are you disclosing the number? Or at least qualitatively we can give some direction.

**Rajeev Nannapaneni:** Regarding expenses and all, we have seen a drop in expenses. I think, if you compared on Q-on-Q, there is a drop in expense. I think like, see, the drop in expense is not by any design. It is just because of pandemic, what has happened, where the travel has dropped. Your reps are not going out, and those expenses have dropped. So, and just it is the nature of the environment, and regarding, what was the other question you said?

**Srihari C:** Profit split.

**Rajeev Nannapaneni:** Profit and all. See, I used to, I stopped doing it for strategic reasons, then you are actually telling your competitor how much money you are making on each product, and then you are

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just opening yourself to be sitting ducks to be attacked. I mean I think I had a change of mind after, recently because then you are just opening yourself for, sometimes, you have to be guarded about how much, you have to be obviously forthright about what you are doing and how you are making your money, but again, too much detail also has a way of hurting you. So I think we are not doing a split, for that reason, okay?

**Srihari C:** Yes. That is why I asked for that qualitatively at least, if you can give some indication.

**Rajeev Nannapaneni:** I think we have clubbed it in one group, my friend. I think I have decided to club it from this year in one group, but I think I have answered the question indirectly, where I said these are the primary contributors, but product-wise, I do not want to do it. For competitive reasons. Okay?

**Srihari C:** Sure.

**Moderator:** Thank you. The next question is from the line of Sumit Mehta from Vallum Capital. Please go ahead.

**Kunal Mehta:** This is Kunal. I have 2 questions. Sir, I just wanted a clarification. So for Revlimid, we have 2 major indications, where the bulk of the business, bulk of the revenue for Celgene comes when, which is multiple myeloma and MDS. So when I look at clinical trials, we see at least 1 to 2 trials being conducted for Revlimid along with some other drugs for various oncology and autoimmune indications. So my question is that, once we get an approval, does the approval allow us to supply Revlimid for all of these indications? Or it is just for multiple myeloma.

**Rajeev Nannapaneni:** To be honest with you, I think, whatever indications that I have stated, I think, which are approved today, I think we have clearance for that. That is my understanding. To be honest with the question you have asked, I do not have an answer to that. at this time. So what my understanding is that, whatever indications which are approved, I think we are allowed to sell.

**Kunal Mehta:** Sure, sir, and second question I have is on Copaxone. So for Copaxone, we had visibility for volumes till, I think, the end of this calendar year. So now that it was, I think, August, or maybe in October is the time when you will want to, when Mylan will renegotiate the contracts, renew the contracts for this product. So any indication for next year maybe, something?

**Rajeev Nannapaneni:** Do I have an indication about how the volumes are in, for this year and for the next year?

- Kunal Mehta:** Yes, yes.
- Rajeev Nannapaneni:** I do not have an answer to that question. Mylan handles it, so it is better directed at Mylan than us, I think. They handle the strategy, so I think I cannot answer that question.
- Kunal Mehta:** Which, if you see, see that is how, now that release is delayed beyond FY2022, we would have more room for keeping the volumes at least or at least maybe even growing it and go beyond the 30% share.
- Rajeev Nannapaneni:** When that will come, I have no idea, my friend. So I think that is something that you should ask Reddy's. Regarding our market share, I think we have been stable. I think we are doing well with the product.
- Rajesh Chebiyam:** Over 30%.
- Rajeev Nannapaneni:** And we are doing over 30%, as you rightly said, and we are happy with the situation that we are in.
- Kunal Mehta:** Sure, and the last question I have is on the agro chemicals product. So I am sure the court case will have its own part, but when you speak about the approval from the CIB, what review which we have got from other agro chemical companies is that the whole process of getting a 9(3) registration it came to, it is getting, I would say, time consuming because the file has to move through multiple departments and there is a lot of bureaucracy involved also in the process. So what is giving you the confidence that you will be able to get your file approved in maybe 18 months time frame? Because I think, between the start time we will make the filing and maybe next 6 months, it is around 18 to 20 months now. So generally it is a 3 to 5 year process really.
- Rajeev Nannapaneni:** No. I disagree with you, my friend. I think typically it takes about 12 to 18 months. I think we filed it last year, so I think, I said I do not know when exact date. I think we filed it in August or September of last year. I do not remember the date. So I think we are within the time line, and things are moving much faster in CIB now. They are not; it does not take that much time. I think we have, see, we believe we have answered all the queries. I believe that the approval comes soon, but again, because of COVID, things have been obviously a bit challenging for everyone, as you know, and as I said in my commentary, I think we are hopeful that we will get the approval soon. I think that is all I can say, I think, but I think I can only tell you based on what our gut instinct is, but how it actually pans out, I think only time will tell, and on my end, I can only tell you what our feeling is, that we have answered all the questions, and we believe, I think, it will come through, but again I told you a few minutes ago that the launch and all is subject to the approval and the court case outcome.

- Kunal Mehta:** That is all Sir. All the best for the future. Thank you.
- Moderator:** Thank you. Due to time constraints, I would now like to hand the conference over to Mr. Rajeev for closing comments.
- Rajeev Nannapaneni:** I have nothing much to say. I mean, if anybody has any question, I can take one more question. Otherwise, we can close the call. Any other questions please let me now, yes.
- Moderator:** Sure. We have one question from the line of Nikhil Upadhyay from Securities Investment Managements.
- Nikhil Upadhyay:** Rajeev, my question is basically like, if we go back like last year or around, our idea was that the subsidiaries, which are of Canada, and the Brazil subsidiaries will do a lot better and will start contributing towards the profitability. Now with the Revlimid settlement, how do you see that path to profitability? Does that get extended? Or do you still think we have good-enough products to improve the profitability from here?
- Rajeev Nannapaneni:** I think we have a very good pipeline in our subs, and I think we are doing well, and I said a few minutes ago that the subs are contributing a significant amount of earnings now, and I think I said I think it is almost contributing almost in the 12% to 13% range. So I think we are doing well with the subs. Do we have enough traction? Yes, of course, we do. I think we have a good pipeline and I think we have a lot of interesting ideas, and I think I am very optimistic about the future.
- Nikhil Upadhyay:** Sir, when we had discussed last time about the improving contributions, were you including Revlimid's approval or on much at an earlier date? Or has there been any change in the thought process, post the settlement of Revlimid, on the profitability side; or the improvement of the subsidiary side especially on Canada?
- Rajeev Nannapaneni:** I do not understand your question, Nikhil. Can you repeat...
- Nikhil Upadhyay:** Sir, if we go back last year. We were in the court case and there was no settlement. So when we were discussing about the improving prospects from, say, Canada and, at the time, versus now when we have a settlement. So when we were discussing the improvement of the performance of subsidiaries in Canada, were we building in that there could be a potential launch of Revlimid? Because Revlimid Canada is a big product. Now with the launch, does the pipeline of improving performance or gaining traction and scale gets extended? Or how do you see the thought process has changed over, post this settlement? Or do you still believe that earlier itself we were not building in Revlimid and without that itself we were building in a good pipeline?

**Moderator:** We would request the participants to please stay connected, as the management line got disconnected.

**Nikhil Upadhyay:** So should I repeat my question? Or you got the question.

**Rajeev Nannapaneni:** I got disconnected, Nikhil. So I think, what I will do is I will, see, basically I am bound by confidence. See, what does the settlement do? Let us break this down. A settlement gives you a certainty of launch. Have you achieved certainty of launch? The answer is yes. Is settlement good for the company? Yes. Does that give you certainty of launch? Yes. I think that is the best way I can answer it, and the terms and all, I cannot get into it because bound by confidentiality. I think that is the best way I can answer that question, Nikhil, because of the way we have gone, okay, yes.

**Nikhil Upadhyay:** Sure, sure, and just one last thing. Now so on the domestic part, the domestic therapy segment-wise now, with COVID, what we have seen is that our focus was always on being on the speciality side, and we were concentrated on one speciality and we have grown and done a good job on that in scaling it up. We were doing on the diabetes and cardio, and I think it was still too early and COVID hit us. With the crisis, does that now make you think that probably we need to diversify or increase our presence in more therapies in order to, so to make the domestic business more stronger and the cash flows or the operation ability on the domestic side to improve? Do you think that, that need is more, which has to be accelerated faster? Or would you say that we would still continue the way we were thinking earlier?

**Rajeev Nannapaneni:** I think I am acutely aware, Nikhil, that we need to diversify our revenue base. I think, see, the way NATCO has grown is that we have always made these concentrated bets. I think that is the nature of our business. That is one. The second part is I think we continue to make these concentrated, high-value bets. At the same time, we are also trying to expand our portfolio, adding more geographies, doing agrochems. Adding cardio, diabeto and other segments is also part of this diversification. See, one thing you need to understand is that we are trying to do it this organically. We are not going to do it by buying something, is not it? So which takes time, and I think, to answer your question: I am very much aware of this and I think we want to bring down the volatility of our earnings. I think that is obviously my stated goal, I think, but I think, to execute something like this, the benefit of that will take about 2 to 3 years to play out. I think we just have to be patient. Will it happen now in the next quarter? It probably would not, but I think, do we have a vision that this has to be done? Absolutely yes, and am I aware of this? Absolutely yes, but it takes time. That is all it is, and I think especially we have been very conservative. We are not, and we never bought anyone or even did any inorganic growth. I think our idea has always been try to do it with

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the resources that we have, with our own niche ideas. Well, it takes time, but my view is that over a period of time we will see the benefit of our diversification as well, okay?

**Nikhil Upadhyay:** Okay.

**Rajeev Nannapaneni:** Anything else? Any other questions, guys? Could I conclude?

**Moderator:** Sure, sir.

**Rajeev Nannapaneni:** Yes. Thank you so much, everyone, yes.

**Rajesh Chebiyam:** Yes, thank you all. Have a good day.

**Moderator:** Thank you. On behalf of Axis Capital, that concludes today's conference call. Thank you for joining us, and you may now disconnect your lines.